

# INVESTIGATIVE AUDIT REPORT

CITY OF MARTIN –THE C.E. WELDON LIBRARY  
AND THE MISS SOYBEAN FESTIVAL PAGEANT

JULY 1, 2000, THROUGH SEPTEMBER 30, 2002



STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
Department of Audit  
Division of Municipal Audit



STATE OF TENNESSEE

John G. Morgan

COMPTROLLER OF THE TREASURY

Comptroller

STATE CAPITOL

NASHVILLE, TENNESSEE 37243-0260

PHONE (615) 741-2501

March 30, 2004

Honorable Mayor and Members of the  
Board of Aldermen  
City of Martin  
P. O. Box 290  
Martin, TN 38237

Ladies and Gentlemen:

Presented herewith is the report on our investigative audit of the records of the City of Martin. This examination focused on the period July 1, 2000, through September 30, 2002. However, when the examination warranted, this scope was expanded. Our audit was limited to an examination of selected records of the C. E. Weldon Library and the Miss Soybean Festival Pageant.

Section 9-2-102, *Tennessee Code Annotated*, requires that the Comptroller of the Treasury prescribe a uniform system of bookkeeping designating the character of books, reports, receipts and records, and the method of keeping same, in all state, county and municipal offices, including utility districts, which handle public funds. This code section also requires that all officials adopt and use the prescribed system. The Comptroller has prescribed a minimum system of recordkeeping for municipalities, which is detailed in the *Internal Control and Compliance Manual for Tennessee Municipalities* combined with Chapters 1-13 of *Governmental Accounting, Auditing and Financial Reporting*. The purpose of our examination was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manuals.

Our investigative audit revealed that the former city library director, Teresa Johnson, apparently misappropriated city money totaling at least \$2,118.93 for her personal benefit. This matter has been referred to the local district attorney general.

Also, the findings and recommendations in this report relate to those conditions that we believe warrant your attention. All responses to each of the findings and recommendations are included in the report.

Honorable Mayor and Members of the  
Board of Aldermen  
City of Martin  
March 30, 2004

Copies of this report are being forwarded to Governor Phil Bredesen, the State Attorney General, the District Attorney General, certain state legislators, and various other interested parties. A copy is available for public inspection in our office.

Very truly yours,

John G. Morgan  
Comptroller of the Treasury



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF MUNICIPAL AUDIT**

**John G. Morgan**  
Comptroller of the Treasury

**SUITE 1600  
JAMES K. POLK STATE OFFICE BUILDING  
505 DEADERICK STREET  
NASHVILLE, TENNESSEE 37243-0271  
PHONE (615) 401-7871  
FAX (615) 741-1551**

**Dennis F. Dycus, CPA, CFE, Director**  
Division of Municipal Audit

March 30, 2004

Mr. John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, TN 37243-0260

Dear Mr. Morgan:

As part of our on-going process of examining the records of municipalities, we have completed our investigative audit of the records of the City of Martin. This examination focused on the period July 1, 2000, through September 30, 2002. However, when the examination warranted, this scope was expanded. Our audit was limited to an examination of selected records of the C. E. Weldon Library and the Miss Soybean Festival Pageant.

Section 9-2-102, *Tennessee Code Annotated*, requires that the Comptroller of the Treasury prescribe a uniform system of bookkeeping designating the character of books, reports, receipts and records, and the method of keeping same, in all state, county and municipal offices, including utility districts, which handle public funds. This code section also requires that all officials adopt and use the prescribed system. The Comptroller has prescribed a minimum system of recordkeeping for municipalities, which is detailed in the *Internal Control and Compliance Manual for Tennessee Municipalities* combined with Chapters 1-13 of *Governmental Accounting, Auditing and Financial Reporting*. The purpose of our examination was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manuals.

Our investigative audit revealed that the former city library director, Teresa Johnson, apparently misappropriated city money totaling at least \$2,118.93 for her personal benefit. This matter has been referred to the local district attorney general.

Mr. John G. Morgan  
Comptroller of the Treasury  
March 30, 2004

Also, our examination resulted in findings and recommendations related to the following:

1. Inadequate documentation for over \$29,000 paid directly to the former city library director
2. Documentation inadequate to determine the source of collections and whether all collections received by library personnel were turned over by the former city library director for deposit into a city bank account
3. Library collections not turned over for prompt deposit
4. Collections not deposited intact due to checks payable to city being cashed by bank and due to checks being cashed through city's cash drawer

In addition to our findings and recommendations, we are also providing management's response. If after your review, you have any questions, I will be happy to supply any additional information which you may request.

Sincerely,

Dennis F. Dycus, CPA, CFE, Director  
Division of Municipal Audit

**INVESTIGATIVE AUDIT REPORT OF SELECTED  
RECORDS OF THE CITY OF MARTIN-THE C. E. WELDON LIBRARY  
AND THE MISS SOYBEAN FESTIVAL PAGEANT  
FOR THE PERIOD JULY 1, 2000, THROUGH SEPTEMBER 30, 2002**

As noted in the Legal Issue, our investigative audit revealed that the former city library director, Teresa Johnson, apparently misappropriated city money totaling at least \$2,118.93 for her personal benefit. As noted in Finding 1 in the Findings and Recommendations, the city issued numerous checks directly to Ms. Johnson despite the fact that she often submitted no documentation to support her requests for money. Auditors were unable to obtain adequate information from other sources regarding these payments. Therefore, we could not determine whether, in addition to the \$2,118.93 set forth in the Legal Issue, city checks totaling over \$29,000, paid to Ms. Johnson from July 1, 2000, through September 30, 2002, benefited the city or were for the unauthorized, personal benefit of Ms. Johnson. In addition, as noted in Finding 2, Ms. Johnson did not provide any records of collections to city officials when she remitted money to the city recorder's office for deposit. As a result, we were unable to determine whether all money collected on behalf of the C. E. Weldon Library was turned over by Ms. Johnson to the city recorder's office for deposit into a city bank account.

**LEGAL ISSUE**

1. **ISSUE:**      **Apparent misappropriation of \$2,118.93 by former city library director**

The apparent misappropriation involved two checks issued by the City of Martin as noted below. Ms. Johnson has made monetary restitution to the city for the amount of the two checks. However, as noted, the restitution was not made until after she was confronted regarding each irregularity.

**Apparent misappropriation of \$500**

As required by the terms of their contract to audit, the auditors of the City of Martin notified our office of "possible irregularities" that had been brought to their attention regarding transactions involving the C. E. Weldon Library director, Teresa Johnson. After further inquiry into these possible irregularities by the city's auditors and city officials, Ms. Johnson resigned.

Our investigative audit revealed that the City of Martin issued a check for \$500, dated September 21, 2001, payable to a local business. According to related city records, the check was issued at the request of Ms. Johnson, and the stated purpose was "Website Refund."

**City of Martin**  
P.O. BOX 290  
MARTIN, TENNESSEE 38237

CITY STATE BANK  
MARTIN, TN

No. 055847

DATE 09-21-01

CHECK AMOUNT  
\*\*\*\*\*500.00

VOID AFTER 90 DAYS

Exactly \*\*\*\*\*500 DOLLARS AND 00 CENTS

1. ORDER OF  
2. UNIVERSITY LODGE, INC.  
P.O. BOX 50  
MARTIN, TN  
38237

*Nancy Johnson*  
AUTHORIZED SIGNATURE

City records included no documentation of any payment to the city from the local business for the Website service. Instead, the check issued by the local business on June 29, 2001, as advance payment for this Website service, was made payable to Teresa Johnson and was apparently deposited directly into Ms. Johnson's personal bank account, rather than a city bank account.

**UNIVERSITY LODGE**  
P.O. BOX 50 PH. 901-597-9677  
MARTIN, TN 38237

5624

DATE June 29, 01

PAY TO THE ORDER OF Teresa Johnson \$500.00

Five Hundred Dollars DOLLARS

**REELFOOT BANK**  
MARTIN, TENNESSEE 38237

FOR Internet

023369268 02 070201 0010021768

*Janice Cheek*

#005624# #0000050000#

>0843-0141-1<  
UPNB BROWNSVILLE TN  
023369268.07-02-01

21-101

0840000039  
013 013 011 07/04/01  
4300192855

For Deposit Only  
UP Federal City  
JUN 29 2001  
4831 168644

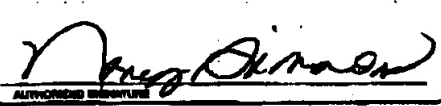
ENCLOSURE

*Janice Johnson*


Discussion with city officials and the city's auditors revealed that on May 21, 2002, when initially confronted regarding this discrepancy, Ms. Johnson claimed that the check from the local business had inadvertently been deposited into her personal bank account. However, our audit revealed that Ms. Johnson did not make deposits directly into city bank accounts. Instead, she remitted collections to the city recorder's office for deposit, making it unlikely that she had inadvertently deposited the check directly into her personal account. Ms. Johnson further told the city auditors and officials that she had "refunded" the money to the city the day after the check was deposited. However, Ms. Johnson failed to provide documentation of any such refund. City officials discussed the matter again with Ms. Johnson on May 22 and May 23, 2002. The city accepted Ms. Johnson's resignation on May 28, 2002. On June 11, 2002, the city deposited Ms. Johnson's personal check for \$500, dated May 24, 2002, payable to the City of Martin. Refer to Exhibit 1 for a timeline of these transactions.

### Apparent misappropriation of \$1,618.93

In October 2001, the City of Martin issued a \$1,618.93 check payable to the former city library director, Teresa Johnson.

<b>City of Martin</b> P.O. BOX 290 MARTIN, TENNESSEE 38207		<small>CITY OF MARTIN MARTIN, TN</small>	<small>27-188 843</small> No. 056452
		DATE 10-19-01	CHECK AMOUNT ***\$1,618.93
Exactly ****1,618 DOLLARS AND 93 CENTS		VOID AFTER 90 DAYS	
TO THE ORDER OF	JOHNSON, TERESA	 <small>AUTHORIZED SIGNATURE</small>	
#056452#			

Check Number 56452 - T/R 08430163 - Account - ProcessCode  
Amount 1618.93 - Posted 10-19-2001 - Reference Number 03 00165070 01


---



Related city records indicated that Ms. Johnson requested that this check be issued to her as reimbursement for her purchase of an outdoor book return unit for the library. Included in these related records were a purchase requisition signed by Ms. Johnson and a copy of a "shopping cart" apparently printed from the vendor's Website. Subsequent investigation revealed that this was apparently a fictitious purchase.

# PURCHASE REQUISITION

Date 10/18/01 Requisition No. 4345

PURCHASING DEPARTMENT Please purchase the following items:

For Library Department Notify

Purpose or Use Outside book return Charge To: 122-44880-235

Source Demo - Jesus Johnson reimburse Ship via

Remarks

QUANTITY	UNIT	STOCK NUMBER	DESCRIPTION	DATE NEEDED	ESTIMATED COST
			Outside Book Return		161893
			Cash Voucher		

Requested by [Signature]

Departmental Approval

For Purchasing Department Use:

Approved  Date

Ordered From

P.O. No.  Date



#### SHOPPING CART

**CE Weldon Public Library**  
100 Main Street  
Martin, TN 38237  
731-587-4750

Cart ID: 000043933  
Contents: Furniture - 3 line items  
Supplies - 0 line items  
Discounts - 0 line items  
Books - 0 line items

Last modified: 10/18/01  
Total line items: 3  
Merchandise total amount: \$1,618.93  
Book processing options total: \$.00  
Total amount before tax & shipping: \$1,618.93  
Total weight: 240.07 lbs  
Book allocation:  
Do not exceed limit: \$  
Apply book processing options? Yes No

#### FURNITURE

Heavy-duty Outdoor Steel Book Return With One Inner Cart 48"H x 25"W x 34 1/2"D  
WF14161650 EA \$1,599.95 \$1,599.95  
Library Book Return Decal Blue Letters On Vinyl WF14104150 EA \$9.99 \$9.99  
Library Logo Decal Blue Letters On Vinyl 10" x 8" WF14104160 EA \$8.99 \$8.99

---

Merchandise total amount: \$1,618.93  
Book processing options total: \$.00  
Total amount before tax & shipping: \$1,618.93

Applicable Wisconsin or California taxes will be computed when you check out. Shipping and handling charges are prepaid and added to your invoice.

In October 2002, the City of Martin issued a check to another vendor for the purchase of the outdoor book return unit currently in use by the library. As noted above, following the discovery of the apparent misappropriation regarding the Website refund, Ms. Johnson resigned in May 2002, a full seven months after she requested and received the \$1,618.93 reimbursement to which she was not entitled. However, she did not inform city officials of the irregularity regarding the book drop reimbursement or make any attempt to repay the city at that time.

In December 2002, Ms. Johnson admitted that she had requested and retained this city money without authorization for over a year. She claimed that she had placed an order for

the original book return unit listed on the shopping cart using her personal credit card as payment, but was informed that the book return had to be backordered. According to Ms. Johnson, she requested and retained the “reimbursement” amount of \$1,618.93, believing that once the vendor sent the unit, her credit card would be charged. However, a vendor representative stated that the company had not received any order from Ms. Johnson, the C.E. Weldon Library, or the City of Martin, for the book drop or other items listed on the shopping cart printout.

Ms. Johnson also admitted that the city administrator had recently discussed this issue with her, and that she then repaid \$1,618.93 to the city after being confronted. The city administrator, Richard Tidwell, told a state auditor that he had recently been made aware that Ms. Johnson had requested and received city money to which she was not entitled, and had asked her to repay the money to the city. Mr. Tidwell verified that in October 2002, Ms. Johnson repaid the city \$1,618.93. Although the city did later provide a copy of a receipt, Mr. Tidwell was unable to locate a receipt or any other documentation of this payment at the time of our initial request. For a timeline of these transactions, refer to Exhibit 2.

These matters have been referred to the local district attorney general.

**In December 2002, Ms. Johnson provided auditors with documents which she stated itemized personal payments she made on behalf of the library, but for which she did not seek reimbursement. However, we were unable to determine from our review of these documents that any of these purported reimbursable disbursements actually benefited the city. In fact, the documentation provided by Ms. Johnson included the \$500 repayment of the apparent misappropriation noted in the Legal Issue. This documentation also included a “Cash Deposit” purportedly made on behalf of the library in July 2002 for \$700. There was no documentation to indicate that Ms. Johnson had paid \$700 in personal funds to the city. Instead, documentation provided by the current librarian indicated that library collections turned over to the recorder’s office on August 22, 2002, included \$700 in library jewelry fundraiser collections that Ms. Johnson had turned in to the current librarian. There was no explanation provided to auditors as to why Ms. Johnson failed to remit these collections when the jewelry fundraiser ended in April or May 2002, or even when Ms. Johnson resigned in May 2002, but instead apparently held this city money for more than two months.**

## **GLOSSARY OF STATE STATUTES**

Section 39-14-103, *Tennessee Code Annotated*

### **Theft of property.**

A person commits theft of property if, with intent to deprive the owner of property, the person knowingly obtains or exercises control over the property without the owner's effective consent.

---

Section 39-14-105, *Tennessee Code Annotated*

### **Grading of theft.**

Theft of property or services is . . .

(3) A Class D felony if the value of the property or services obtained is one thousand dollars (\$1,000) or more but less than ten thousand dollars (\$10,000) . . .

---

Section 39-16-402. *Tennessee Code Annotated*

### **Official misconduct.**

(a) A public servant commits an offense who, with intent to obtain a benefit or to harm another, intentionally or knowingly . . .

(4) Violates a law relating to the public servant's office or employment; or

(5) Receives any benefit not otherwise authorized by law.

**THIS PAGE LEFT BLANK INTENTIONALLY.**

## **FINDINGS AND RECOMMENDATIONS**

The Comptroller of the Treasury has prescribed a minimum system of bookkeeping for all municipalities. Section 9-2-102, *Tennessee Code Annotated*, requires municipal officials to adopt and use this system. However, City of Martin officials apparently failed to provide adequate management oversight to ensure that required procedures were established and followed. This failure resulted in a pervasive and persistent lack of adequate internal controls over collections and disbursements related to the C. E. Weldon Library and the Miss Soybean Festival Pageant.

Our review of the City of Martin's fiscal year 2000 annual audit report revealed that the city's auditor directly addressed the inadequacy of relevant internal controls over library and pageant disbursements, questioning the validity of some disbursements and timely payment of some library invoices. Responsible city officials apparently accepted, without further review, the explanation provided by Teresa Johnson, former city library director, regarding questioned disbursements. The response completely ignored the late payment issue. Responsible city officials apparently made no effort to correct the stated internal control weaknesses. Refer to Exhibit 3.

Additionally, although aware of the nature of our investigation, city officials failed to notify us of a previously undisclosed instance of apparent misappropriation. The city administrator revealed his knowledge of this incident only after we made inquiries regarding the relevant transaction.

Section 10-3-101, et al., *Tennessee Code Annotated*, sets forth certain policies and procedures related to municipal libraries and library boards. Section 10-3-104, *Tennessee Code Annotated*, states that "[t]he board has the power to direct all the affairs of the library. . . . It may make and enforce rules and regulations. . . ."

Although, as noted, state law provides that city officials may grant library board members the power to direct all affairs of the library, it appears that city officials retained control over collections and disbursements. We saw no documentation to indicate that any members of the library board authorized any disbursements or provided guidance regarding the receipt of collections. In fact, the chairman of the library board stated that except for the apparent misappropriation of \$500 related to the Website service refund, the library board had no knowledge of any issues set forth in this report, including the library-related finding taken by the city's auditor, which is shown in Exhibit 3.

We recommend that city officials consult with the city attorney and determine the power and resulting authority and responsibility that is intended to be given the library board regarding library operations. It should be emphasized that providing the library board with additional powers and responsibilities does not alleviate the oversight responsibility of the mayor and members of the board of aldermen.

Because our investigative audit indicated that the city administrator's office had control over collections and disbursements related to the C.E. Weldon Library and the Miss Soybean Festival

Pageant, our findings have been addressed to the mayor and members of the board of aldermen and other responsible staff members. However, to ensure that all information related to the library is disseminated to the library board, we will send a copy of the final report to each library board member.

The following findings address some of the most critical internal control weaknesses which allowed the apparent misappropriation and other errors and irregularities to occur and not be detected timely.

1. **FINDING: Inadequate documentation for over \$29,000 paid directly to the former city library director**

Between July 1, 2000, and September 30, 2002, the former city library director, Teresa Johnson, requested and received \$43,880.23 for reimbursements or advances purportedly for purchases and travel on behalf of the C. E. Weldon Library and the Miss Soybean Festival Pageant. However, no supporting documentation, such as invoices from vendors, could be located for many of the disbursements and existing documentation was often inadequate. In numerous cases, the city paid Ms. Johnson hundreds of dollars based merely on Post-It notes or handwritten requests. Following are several city checks issued to Ms. Johnson at her request and related documentation. These checks and related support are representative of the documentation of reimbursements to Ms. Johnson that was routinely accepted by city hall personnel and officials.

Check 47056, issued August 25, 2000, for \$600

The only available supporting documentation for this disbursement was the purchase requisition below. Note that the amount requested was apparently changed from \$500 to \$600.

**PURCHASE REQUISITION** Date 8/24/00 Requisition No. # 4745

PURCHASING DEPARTMENT Please purchase the following items:

For Library Department Notify

Purpose or Use Book sale Charge To: 122-44880-235

Source John Johnson Ship via

Remarks Reimbursement - book sale

QUANTITY	UNIT	STOCK NUMBER	DESCRIPTION	DATE NEEDED	ESTIMATED COST
			Book sale		600.00
			CASH VOUCHER		

Requested by [Signature] For Purchasing Department Use:

Departmental Approval  Approved  Date

Ordered From  P.O. No.  Date

CITY OF MARTIN • P.O. BOX 290 • MARTIN, TENNESSEE 38237

BOOK SALE 122-44880-235 600.00

HOME OF THE UNIVERSITY OF TENNESSEE AT MARTIN

DETACH THIS STUB BEFORE PRESENTING CHECK FOR PAYMENT

City of Martin

P.O. BOX 290  
MARTIN, TENNESSEE 38237

Exactly \*\*\*\*\*600 DOLLARS AND 00 CENTS

TO THE ORDER OF JOHNSON, TERESA

CITY STATE BANK  
MARTIN, TN 87-163  
243 No. 047056

DATE 08-25-00

CHECK AMOUNT \*\*\*\*\*600.00

VOID AFTER 90 DAYS

NON-NEGOTIABLE

AUTHORIZED SIGNATURE [Signature]

#047056#



The only available supporting documentation for this disbursement was the purchase requisition below.

[illegible]

City of Martin

P.O. BOX 290  
MARTIN, TENNESSEE 38237

TO THE  
ORDER  
OF

JOHNSON, TERESA

Exactly \*\*\*\*\*500 DOLLARS AND 00 CENTS

CITY STATE BANK  
MARTIN, TN

87-183  
843

No. 059347

DATE  
03-11-02

PRECEDENCE

\*\*\*\*\*500.00

VOID AFTER 90 DAYS

NON-NEGOTIABLE

AUTHORIZED SIGNATURE

**Check 60468, issued May 1, 2002, for \$535**

The only available supporting documentation for this disbursement was a Post-It note indicating the purpose of the reimbursement was "jewelry - fund raiser," affixed to the carbon copy of the check.

CITY OF MARTIN • P.O. BOX 290 • MARTIN, TENNESSEE 38237

REIMBURSEMENT 122-44880-235 JEWELRY/FUND RAISER 535.00

*jewelry - fund raiser*  
*122-44880-235*  
*T Johnson*  
*\$535.00* *\$4845*

DETACH THIS STUB BEFORE PRESENTING CHECK FOR

**City of Martin**  
P.O. BOX 290  
MARTIN, TENNESSEE 38237

CITY STATE BANK  
MARTIN, TN 87-163  
843 No. 060468

DATE 05-01-02

CHECK AMOUNT  
\*\*\*\*\*535.00

VOID AFTER 90 DAYS

Exactly \*\*\*\*\*535 DOLLARS AND 00 CENTS

TO THE ORDER OF JOHNSON, TERESA

**NON-NEGOTIABLE**  
AUTHORIZED SIGNATURE

As noted in the Legal Issue, we were able to obtain enough information to indicate that Ms. Johnson apparently misappropriated at least one payment of \$1,618.93 for her personal benefit. However, because city officials failed to require Ms. Johnson to submit adequate documentation to support requested reimbursements or advances, we were unable to determine if the city benefited from additional city payments made to her totaling over \$29,000.

Following is a breakdown of disbursements to Ms. Johnson purportedly for reimbursements or advances, categorized according to the adequacy of available supporting documentation:

Category	Subtotal	Amount	Percentage
Apparently fraudulent disbursement (Refer to Legal Issue)		\$ 1,618.93	3.69%
Lack of adequate supporting documentation:			
• No supporting documentation	\$16,246.53		
• Inadequate supporting documentation	6,266.14		
• Travel supported by reimbursement or advance request only <sup>1</sup>	<u>6,569.30</u>		
Total inadequately supported disbursements to Ms. Johnson		29,081.97	66.28%
Adequate supporting documentation		<u>13,179.33</u>	<u>30.03%</u>
Total disbursements to Ms. Johnson from July 1, 2000, through September 30, 2002, for purported reimbursements or advances		<u>\$43,880.23</u>	<u>100.00%</u>

Apparently, authorized check-signers did not review supporting documentation before they signed checks. The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 2, Chapter 2, Section 4, states:

Municipal officials should ensure . . . that supporting documentation is filed alphabetically by vendor or by date paid. . . . All disbursements, regardless of the accounting procedures, must be supported by invoices, cash tickets or other adequate supporting documentation. (Statements are NOT adequate supporting documentation.)

Section 3 requires that the related documentation accompany checks presented for approval and signing.

#### **RECOMMENDATION:**

To document that each disbursement is for a valid municipal purpose, City of Martin officials should ensure that adequate supporting documents are maintained in the city's files in accordance with the *Internal Control and Compliance Manual for Tennessee*

---

<sup>1</sup> No hotel invoices, gas tickets, record of miles driven, or other supporting documentation was located for these disbursements.

*Municipalities.* Before signing a check, authorized individuals should review adequate supporting documentation to determine that the disbursement is for a valid municipal purpose and that the charge has not previously been paid. Payments made in advance of actual travel should be reconciled to travel costs incurred and authorized, and any unused amounts should be repaid to the city.

**MANAGEMENT’S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur.

**Recorder:**

I concur, that in the past, there have been instances of inadequate documentation related to disbursements of municipal funds. As of January 2004, the city recorder is reviewing all disbursements. Prior to authorizing the disbursement and signing a check, each request is being reviewed for adequate supporting documentation. The city recorder is scrutinizing any disbursement to an employee, outside of a normal payroll check. The city has also adopted a new travel policy. Under this policy, uniform travel request forms are being used. These travel request forms require departmental supervisor approval/signature, finance department approval/signature, as well as supporting documentation for the purpose of the travel. Under the new policy, a detailed travel expense report has been implemented. Included in the travel expense report is a reconciliation of all actual expenses and the amount of the travel advance, if any. These detailed reports are to be completed in a timely manner. Supporting documentation and the approval/signature of the departmental supervisor and the finance department are also required.

2. **FINDING:**    **Documentation inadequate to determine the source of collections and whether all collections received by library personnel were turned over by the former city library director for deposit into a city bank account**

Our audit revealed that library personnel did not issue receipts for collections. Except for the sale of ceramic replicas, the former city library director, Teresa Johnson, apparently did not prepare and retain any collection records. Library staff indicated that Ms. Johnson conducted numerous fundraisers, including a jewelry sale, for the C.E. Weldon Library and for the Miss Soybean Festival Pageant. Also, donations from local citizens, businesses, etc., for the library were apparently received. However, city and library personnel were unable to locate any records detailing amounts collected for specific donations or fundraisers. A long-time member of the C.E. Weldon Library Board stated that the board repeatedly asked Ms. Johnson to provide fundraiser summaries indicating profits or losses from various fundraisers. However, this board member stated that Ms. Johnson never provided any “hard numbers.” Contrary to some documentation reviewed

by auditors indicating that she expected to receive donations for the Miss Soybean Festival Pageant, Ms. Johnson stated that she did not receive any such donations. In addition, she did not provide any records that indicated donations for the pageant were received by her and turned over for deposit.

Records maintained at the city indicated that from July 1, 2000, through May 31, 2002, \$99,516.83 in library collections were credited to the library account. However, due to the gross inadequacy of collection records, we were unable to determine the source of many of these collections or whether all collections received by library personnel were turned over by Ms. Johnson for deposit.

In addition, the city recorder did not require city hall personnel to comply with state law and issue duplicate, prenumbered receipts to library personnel when library personnel turned over collections for deposit. Instead, library collections were recorded with other city collections on prenumbered collections summary forms. As a result, city hall personnel were unable to identify specific collections.

Section 9-2-103, *Tennessee Code Annotated*, states, “Each . . . municipal official who receives any sum or sums in such official’s capacity shall issue to the payer thereof a receipt and shall retain a duplicate thereof in the office of such official. . . .”

Section 9-2-104, *Tennessee Code Annotated*, states:

- (a) The receipt shall be issued in duplicate and a copy thereof shall be retained by the person so receiving such money and shall be available to the state auditors upon demand.
- (b) The receipts shall be in a well-bound book, or on a form approved by the comptroller of the treasury, and shall be prenumbered consecutively.

Section 9-2-106, *Tennessee Code Annotated*, states, “Any person violating any of the provisions of §§ 9-2-103 – 9-2-105 commits a Class C misdemeanor.”

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 2, states:

Note: Anytime custody of money changes from one employee to another, the money should be counted by both employees, a receipt should be issued by the recipient of the funds, and BOTH EMPLOYEES SHOULD SIGN THE DOCUMENT INDICATING CONCURRENCE WITH THE AMOUNT TRANSFERRED.

**RECOMMENDATION:**

To better account for all revenue, library and city hall personnel who receive collections should issue duplicate, prenumbered receipts for all collections. Duplicate, prenumbered receipts should also be issued when custody of collections changes from one city employee to another, including library personnel. Receipts for transfers of collections between employees should be signed by both employees to indicate concurrence as to the amount transferred.

**MANAGEMENT'S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur.

**Recorder:**

I concur, that in the past, there have been instances of inadequate documentation to support the amount of collections. Library personnel have already established a system of issuing prenumbered receipts for all collections. These collections are currently being turned over to city hall personnel in a timely manner. Transfers of collections between employees are being counted by both employees and individual receipts will be signed by both employees to indicate concurrence as to the amount transferred.

**Library Director:**

I concur that under the former city library director's administration, documentation was inadequate to determine the source of collections. The former library director did not provide library personnel the means of retaining collection records in a consistent and timely manner. As of July 2002, the library personnel who receive collections have been issuing duplicate, prenumbered receipts for all collections. Duplicate, prenumbered receipts are also issued when custody of collections changes from library personnel to city hall employees. Transfer of collections between the employees is counted by both employees and receipts will be signed by both employees to indicate concurrence as to the amount transferred.

3. **FINDING:**    **Library collections not turned over for prompt deposit**

Library collections were not turned over to city hall personnel promptly for deposit into city bank accounts. The city's collections records indicated that library collections were not turned over to city hall personnel for deposit until weeks, in some cases months, after the collections were received by library personnel.

Section 6-56-111(a), *Tennessee Code Annotated*, states:

Every municipal official handling public funds shall be required to, as soon as practical, but no later than three (3) working days after the receipt by such municipal official of any public funds, deposit the funds to the credit of such municipality's official bank account, or bank accounts. . . . A violation of this section is a Class C misdemeanor.

**RECOMMENDATION:**

To help prevent the misuse or loss of collections, city officials should ensure that all library collections are deposited within three working days of initial collection into an official city bank account.

**MANAGEMENT'S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur.

**Recorder:**

I concur, that prior to October 2002, library collections were not being turned over for deposit in a timely manner. Effective in October 2002, all library collections are being deposited into an official bank account within three working days of initial collection.

**Library Director:**

I concur that library collections were not turned over to city hall personnel by former library director promptly for deposit into city bank accounts. After meeting with auditors in October 2002, all library collections are being deposited within three working days of initial collection into an official city bank account.

4. **FINDING:**    **Collections not deposited intact due to checks payable to city being cashed by bank and due to checks being cashed through city's cash drawer**

Our investigative audit revealed that some collections paid by check and turned over to city hall personnel were not deposited directly into a city bank account. Instead, although the checks were apparently restrictively endorsed by city hall personnel, they were taken to the bank and cashed. According to the city hall office manager, these checks were cashed at the bank by city hall personnel to provide additional change for the cash drawer.

Also, the investigative audit revealed that city hall cashiers used city hall cash collections to cash petty cash and other checks. We noted that at least one reimbursement check payable to the former city library director was cashed in this manner.

The *Internal Control and Compliance Manual for Tennessee Municipalities*, Title 3, Chapter 1, Section 5, states:

Collections should be deposited promptly and intact and only in designated depositories. The bank's night depository should be used, if necessary, to avoid large accumulations of currency overnight. . . . The municipality should make daily deposits when large amounts of money are involved.

**RECOMMENDATION:**

To help ensure that all collections are properly accounted for, city officials should require all collections to be deposited intact (in the form and amount in which they are collected) into an official city bank account. City officials should establish procedures that would prohibit any employee from cashing a check received in collections. In addition, cash collections should not be used to cash petty cash checks or other city or personal checks.

**MANAGEMENT'S RESPONSE:**

**Mayor and Members of the Board of Aldermen:**

We concur.

**Recorder:**

I concur, that in the past, checks payable to the city were being cashed by bank and used as change and operating cash for the city's cash drawer. I also concur, that in the past, due-to checks, petty cash checks, and other city or personal checks were being cashed through the city's cash drawer. Effective in February 2004, collections are being deposited in the form and amount in which they are received. Also, effective in February 2004, the city's cash drawer is no longer being used to cash any petty cash, city, or personal checks.

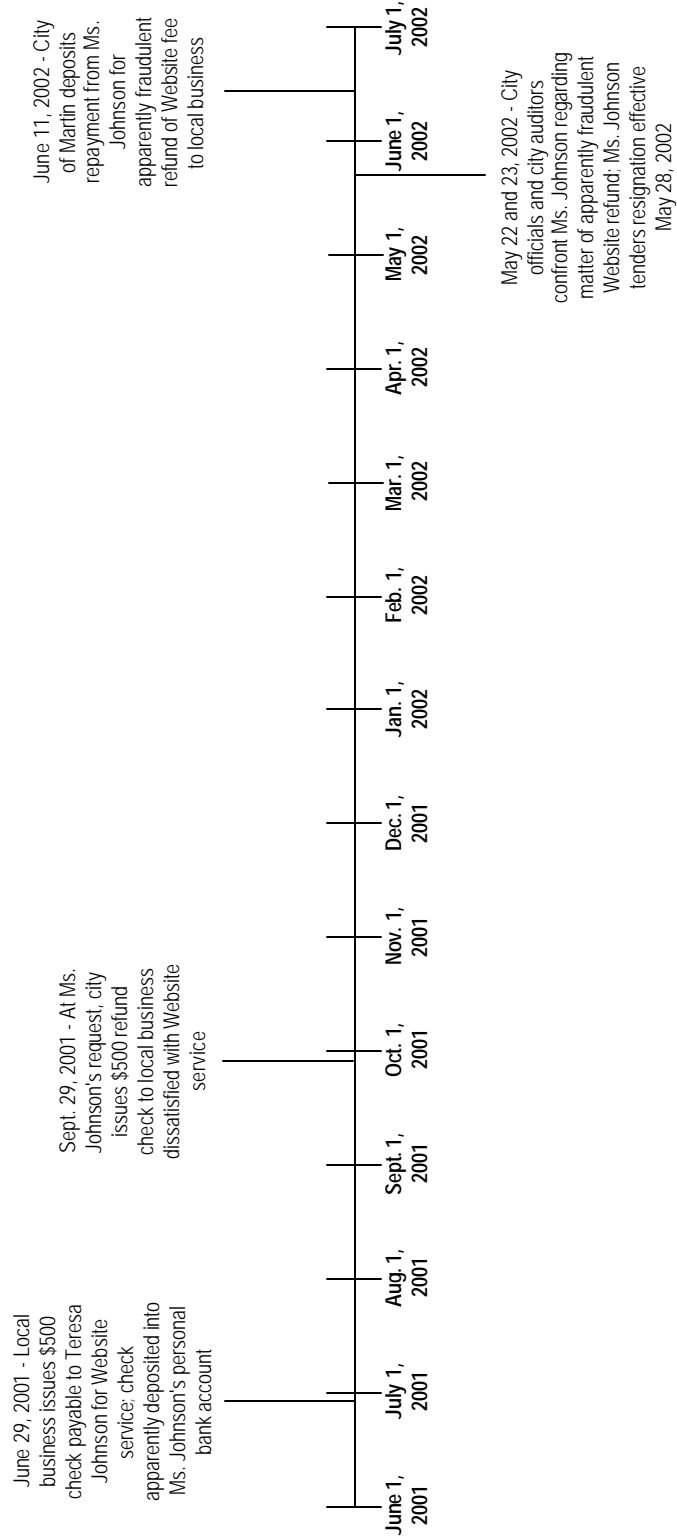


**THIS PAGE LEFT BLANK INTENTIONALLY.**

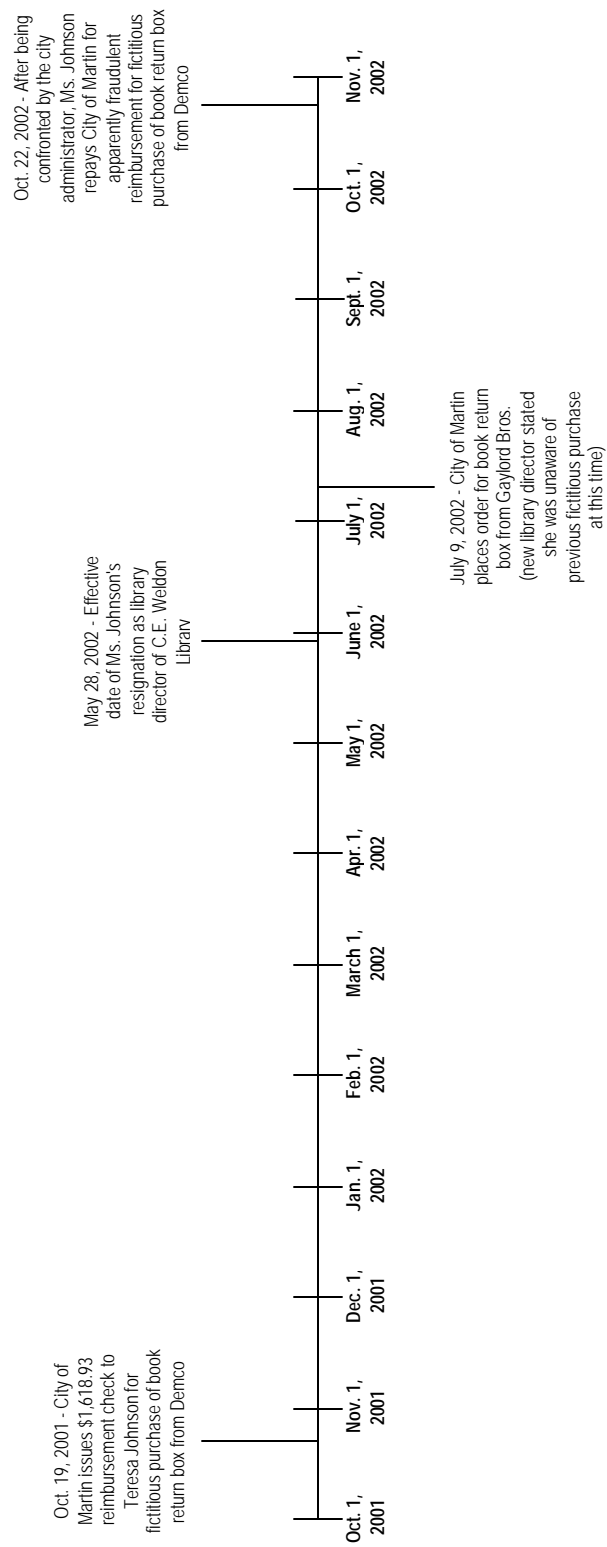
## **APPENDIX**

**THIS PAGE LEFT BLANK INTENTIONALLY.**

## Exhibit 1



## Exhibit 2



CITY OF MARTIN  
MARTIN, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2000

00-2) Finding: One state grant was not posted correctly. Rather than being reported on a revenue, it was posted against expenditures.

Recommendation: All grant monies should be accounted for separately in the City's general ledger to enhance compliance with grant requirements.

Management's Response: Management concurs.

In the future grant monies will be budgeted as revenues and expenditures and not posted as a clearing account.

00-3) Finding: The results of our disbursement test revealed a number of questionable expenditures in the library department totaling \$1,061.35. In addition, our test revealed frequent late payments of library department invoices.

Recommendation: Additional controls should be implemented to ensure that only qualified expenditures are approved for payment and payment be made in a timely fashion.

Management's Response: Thank you for bringing to my attention certain audit findings pertaining to the library concerning questionable expenditures. Since the auditors have not come to me with these questions, it is important for me to address them here.

Items purchased for the library that have been questioned are common and ordinary purchases for a public library and include: books (Danielle Steel); computer scanner (for publications and library and city website); case of copy paper; paper towels; a clock (over the circulation desk); videos (we have about 4000) ; CDs (use in events such as the Merchant's Christmas Open House and Bazaar, and as collection to check out to public – we have about 60 in a growing collection which will premier with the new building); refreshments for Preschool Story hour, Wishbone Reading Club, and the Summer Reading Program; items for art projects; items for cleaning and scraping special projects (toothbrushes and razor blades); 35mm film for recording library events; a microwave for ready club and special program refreshments as well as for use by public during meetings and programs in conference room; Stanley screwdrivers for library custodian; and Stanley measuring tape.

The library holds a wide variety of programs and special events aimed at attracting patrons from young children and young adults, to adults and senior citizens. Many times these events and programs require supplies. It is my understanding that the board appropriated funds for library expenditures to meet the needs of library outreach to the public. These items are housed in the library and available for public use.

Items were also purchased for the Tennessee Soybean Festival . They included items for the float that we entered in the Iris Festival, Strawberry Festival, Fish Fry and Soybean parades (ivy creepers, leaves, and flowers); shirts that we had embroidered with the Miss TN Soybean Festival logo for use by volunteers and staff – the same ones will be used each year; items for the use of Miss Soybean

CITY OF MARTIN  
MARTIN, TENNESSEE  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
June 30, 2000

preparation for the Miss Tennessee pageant; items used during the pageant (lamps for the judge's table); and decorations for the centerpieces for the Mayor's Kickoff Luncheon.

The items purchased for the Soybean Festival and pageant were reasonable and necessary. Again, it was my understanding that funds were appropriated for use during the festival, the pageant, and the preparation of Miss Soybean to compete in Miss Tennessee. Most of the items are still in use each year (soybean pageant shirts, the float which was also used in the Christmas parade, Mayor's Luncheon centerpiece materials, and judges' table lamps). Additionally, the pageant committee has a large fund raiser about to launch for pageant expenses.

**Auditor's  
Comment:**

Management has verified to their satisfaction that the expenditures in question were appropriate. However, we maintain that the expenditures were misclassified on the City's books. In addition, their response does not address the frequent late payment of library department invoices. As stated previously, we believe that additional controls should be implemented to prevent this from occurring in the future.



**STATE OF TENNESSEE  
COMPTROLLER OF THE TREASURY  
DEPARTMENT OF AUDIT  
DIVISION OF MUNICIPAL AUDIT**

**John G. Morgan**  
Comptroller of the Treasury

**SUITE 1600  
JAMES K. POLK STATE OFFICE BUILDING  
505 DEADERICK STREET  
NASHVILLE, TENNESSEE 37243-0271  
PHONE (615) 401-7871  
FAX (615) 741-1551**

**Dennis F. Dycus, CPA, CFE, Director**  
Division of Municipal Audit

March 30, 2004

Mr. John G. Morgan  
Comptroller of the Treasury  
State Capitol  
Nashville, TN 37243-0260

Dear Mr. Morgan:

As part of our on-going process of examining the records of municipalities, we have completed our investigative audit of the records of the City of Martin. This examination focused on the period July 1, 2000, through September 30, 2002. However, when the examination warranted, this scope was expanded. Our audit was limited to an examination of selected records of the C. E. Weldon Library and the Miss Soybean Festival Pageant.

Section 9-2-102, *Tennessee Code Annotated*, requires that the Comptroller of the Treasury prescribe a uniform system of bookkeeping designating the character of books, reports, receipts and records, and the method of keeping same, in all state, county and municipal offices, including utility districts, which handle public funds. This code section also requires that all officials adopt and use the prescribed system. The Comptroller has prescribed a minimum system of recordkeeping for municipalities, which is detailed in the *Internal Control and Compliance Manual for Tennessee Municipalities* combined with Chapters 1-13 of *Governmental Accounting, Auditing and Financial Reporting*. The purpose of our examination was to determine the extent of the entity's compliance with certain laws and regulations, including those in the above-mentioned manuals.

Our investigative audit revealed that the former city library director, Teresa Johnson, apparently misappropriated city money totaling at least \$2,118.93 for her personal benefit. This matter has been referred to the local district attorney general.



Mr. John G. Morgan  
Comptroller of the Treasury  
March 30, 2004

Also, our examination resulted in findings and recommendations related to the following:

1. Inadequate documentation for over \$29,000 paid directly to the former city library director
2. Documentation inadequate to determine the source of collections and whether all collections received by library personnel were turned over by the former city library director for deposit into a city bank account
3. Library collections not turned over for prompt deposit
4. Collections not deposited intact due to checks payable to city being cashed by bank and due to checks being cashed through city's cash drawer

In addition to our findings and recommendations, we are also providing management's response. If after your review, you have any questions, I will be happy to supply any additional information which you may request.

Sincerely,

Dennis F. Dycus, CPA, CFE, Director  
Division of Municipal Audit